Newfoundland Labrador

Government of Newfoundland and Labrador
Department of Finance

Newfoundland and Labrador Industrial Development Corporation

Annual Report

For Fiscal Year Ending March 31, 2016

Newfoundland and Labrador Industrial Development Corporation
Annual Report
March 31, 2016

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NEWFOUNDLAND AND LABRADOR INDUSTRIAL DEVELOPMENT CORPORATION
P. O. Box 8700
St. John's, Newfoundland and Labrador
A1B 4J6

September 23, 2016

Honourable Cathy Bennett
Minister of Finance
Government of Newfoundland and Labrador
Confederation Building
St. John's, NL
A1B 4J6

Dear Minister Bennett:

On behalf of the Board of Directors, it is my pleasure to submit the Annual Report for the Newfoundland and Labrador Industrial Development Corporation summarizing the Corporation's activities for the fiscal year ended March 31, 2016. This report has been prepared in accordance with the provisions of Section 16 of the *Industrial Development Corporation Act* and Section 9 of the *Transparency and Accountability Act*.

The Board of Directors has approved the financial statements and information contained in this report, and the Board is accountable for the results reported herein.

Sincerely,

Donna Brewer

Donna Brewer
Chair of the Board

Fax: (709) 729-2070 **Telephone: (709) 729-2946**

CORPORATE OVERVIEW

Overview

The Newfoundland and Labrador Industrial Development Corporation ("NIDC"), established in 1967, and operates pursuant to the *Industrial Development Corporation Act.* NIDC operates with a March 31 fiscal year end and the results of its activities are fully consolidated in the Province's annual financial statements.

Mandate

NIDC's primary purpose is to provide long-term financing to industrial and resource-based projects in accordance with the powers conferred on it by the Act. However, in recent years, NIDC has been relatively inactive with most investment activity being undertaken either directly by the Province or through other Crown Corporations. The most recent investment made by NIDC occurred during the fiscal year ended March 31, 2005. Any future activities of NIDC would be at the direction of the Minister and would be consistent with the Department's values.

Primary Clients and Stakeholders

The Board's primary responsibility is to Government by overseeing NIDC's affairs.

Board Representation and Accountability

The Board of Directors is appointed by the Lieutenant Governor in Council to oversee the affairs of NIDC. All Board members are appointed based upon the position they hold in the Provincial Government, with the position of Chair held by the Deputy Minister of Finance. The Board meets no less often than annually and approves its Annual Financial Statements and Annual Report, both of which are then tabled in the House of Assembly by the Minister of Finance. The members of the Board as of March 31, 2016 and their positions are as follows:

Ms. Donna Brewer (Chair)
Deputy Minister of Finance

Mr. Daryl Genge (Acting)
Deputy Minister of Business, Tourism Culture and Rural Development
Acting effective April 4, 2016

Mr. Paul Myrden (Secretary)
Director of Debt Management
Department of Finance

Mr. David Lewis
Deputy Minister of Fisheries & Aquaculture.

Mr. Craig Martin
Assistant Deputy Minister of Taxation and Fiscal Policy
Department of Finance

Operational and Corporate Information

NIDC has no direct employees as the day-to-day affairs are administered by employees of the Department of Finance. Contact information is as follows:

Mailing Address:

Newfoundland and Labrador
Industrial Development Corporation
c/o Department of Finance
Confederation Building
East Block, Main Floor
P. O. Box 8700
St. John's, NL
A1B 4J6

Office Location:

Debt Management Division
Department of Finance
Confederation Building
East Block, Main Floor
Telephone: (709)-729-2927
Fax: (709) 729-2070

Departmental Website:

www.gov.nl.ca/fin

REPORT ON PERFORMANCE

NIDC is mandated to provide long-term financing to industrial and resource-based projects. This is primarily achieved by entering into commercial investments or other financial arrangements which was the focus of NIDC's 2014-17 Activity Plan. In recent years NIDC has been relatively inactive because most investment activity has been undertaken either directly by the Province or through other Crown Corporations. The following section provides additional information on the activities of NIDC for 2015-16.

Objective:

By March 31, 2016, upon direction from the Province, the NIDC will have entered into commercial investments or other arrangements.

Measure:
Commercial investments or other arrangements completed as directed by the Province.

Indicators:

- Executed transactions as directed by the Province including Board approval of completed transactions as documented and approved in the Annual Report.

Result of 2015-16 Objective:

As there was no direction for such by the Province, no new investments were made during the year.

Objective - 2016-17:

By March 31, 2017, upon direction from the Province, the NIDC will have entered into commercial investments or other arrangements.

Measure:
Commercial investments or other arrangements completed as directed by the Province.

Indicators:

- Executed transactions as directed by the Province including Board approval of completed transactions as documented and approved in the Annual Report.

OPPORTUNITIES AND CHALLENGES AHEAD

While NIDC has met its mandate pursuant to its enabling legislation, it remains available to be used from time to time to facilitate projects.

FINANCIAL STATEMENTS

NIDC's audited financial statements for the year ended March 31, 2016 are attached.

NEWFOUNDLAND AND LABRADOR INDUSTRIAL DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS

MARCH 31, 2016

Office of the Auditor General

Management's Report

Management's Responsibility for the Newfoundland and Labrador Industrial Development Corporation Financial Statements

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards and the integrity and objectivity of these statements are management's responsibility. Management is also responsible for all of the notes to the financial statements, and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that transactions are properly authorized, assets are safeguarded and liabilities are recognized.

Management is also responsible for ensuring that transactions comply with relevant policies and authorities and are properly recorded to produce timely and reliable financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises these responsibilities through the Board. The Board reviews external audited financial statements yearly.

The Auditor General conducts an independent audit of the annual financial statements of the Corporation, in accordance with Canadian generally accepted auditing standards, in order to express an opinion thereon. The Auditor General has full and free access to financial management of the Newfoundland and Labrador Industrial Development Corporation.

On behalf of the Newfoundland and Labrador Industrial Development Corporation.

Donna Brewer, CPA, CA
Deputy Minister of Finance

Paul Myrden, CPA, CA
Director, Debt Management

AUDITOR GENERAL
of Newfoundland and Labrador

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Newfoundland and Labrador Industrial
Development Corporation
St. John's, Newfoundland and Labrador

Report on the Financial Statements

I have audited the accompanying financial statements of the Newfoundland and Labrador Industrial Development Corporation which comprise the statement of financial position as at March 31, 2016, the statements of operations, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Independent Auditor's Report (cont.)

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

The Newfoundland and Labrador Industrial Development Corporation was unable to assess a portfolio investment in an equity instrument for any objective evidence of impairment as recommended by Section PS 3450, *Financial instruments*, of the Canadian public sector accounting standards. As a result, I was unable to obtain sufficient appropriate audit evidence as to the value of Newfoundland and Labrador Industrial Development Corporation's equity investment as at March 31, 2016. Consequently, I was unable to determine whether an adjustment to this amount was necessary.

Qualified Opinion

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Newfoundland and Labrador Industrial Development Corporation as at March 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

TERRY PADDON, CPA, CA
Auditor General

August 26, 2016
St. John's, Newfoundland and Labrador

NEWFOUNDLAND AND LABRADOR INDUSTRIAL DEVELOPMENT CORPORATION

STATEMENT OF FINANCIAL POSITION

As at March 31

	2016 (000's)	2015 (000's)
FINANCIAL ASSETS		
Cash	$ 8	$ 60
Interest receivable	2	2
Accounts receivable	50	-
Portfolio investments (Note 3)	2,366	2,481
	2,426	2,543
LIABILITIES	-	-
Net financial assets	2,426	2,543
NON-FINANCIAL ASSETS	-	-
Accumulated surplus	$ 2,426	$ 2,543

The accompanying notes are an integral part of these financial statements.

Signed on behalf of the Board:

Chairperson **Director**

NEWFOUNDLAND AND LABRADOR INDUSTRIAL DEVELOPMENT CORPORATION

STATEMENT OF OPERATIONS

For the Year Ended March 31

	2016 Budget	2016 Actual	2015 Actual
	(000's) (Note 5)	(000's)	(000's)
REVENUES			
Lease income (Note 3)	$ 50	$ 50	$ 50
Interest income on portfolio investment	8	8	9
	58	58	59
EXPENSES			
Write down of portfolio investment (Note 3)	175	175	175
	175	175	175
Annual deficit	(117)	(117)	(116)
Accumulated surplus, beginning of year	2,543	2,543	2,659
Accumulated surplus, end of year	$ 2,426	$ 2,426	$ 2,543

The accompanying notes are an integral part of these financial statements.

NEWFOUNDLAND AND LABRADOR INDUSTRIAL DEVELOPMENT CORPORATION

STATEMENT OF CASH FLOWS

For the Year Ended March 31

	2016 (000's)	2015 (000's)
Operating transactions		
Annual deficit	$ (117)	$ (116)
Adjustment for non-cash items		
Write-down of portfolio investment	175	175
	58	59
Change in non-cash working capital		
Accounts receivable	(50)	-
Accounts payable and accrued liabilities	-	(6)
Cash provided from operating transactions	8	53
Investing transactions		
Purchase of Guaranteed Investment Certificate	(700)	(640)
Redemption of Guaranteed Investment Certificate	640	590
Cash applied to investing transactions	(60)	(50)
(Decrease) increase in cash	(52)	3
Cash, beginning of year	60	57
Cash, end of year	$ 8	$ 60

The accompanying notes are an integral part of these financial statements.

1. Nature of operations

The Newfoundland and Labrador Industrial Development Corporation (NIDC) operates under the authority of the *Industrial Development Corporation Act*. The primary purpose of NIDC is to provide long-term financing to industrial and resource-based companies. Funding is secured through various means including borrowing from the Province of Newfoundland and Labrador (the Province). The affairs of NIDC are managed by a Board of Directors appointed by the Lieutenant-Governor in Council.

NIDC is a Crown entity of the Province and as such is not subject to Provincial or Federal income taxes.

2. Summary of significant accounting policies

(a) Basis of accounting

NIDC is classified as an Other Government Organization as defined by Canadian Public Sector Accounting Standards (CPSAS). These financial statements are prepared by management in accordance with CPSAS for provincial reporting entities established by the Canadian Public Sector Accounting Board. NIDC does not prepare a statement of change in net financial assets as this information is readily apparent from the other statements. In addition, NIDC does not prepare a statement of remeasurement gains and losses as NIDC does not enter into relevant transactions or circumstances that are being addressed by the statement. Outlined below are the significant accounting policies followed.

(b) Financial instruments

NIDC's financial instruments recognized on the statement of financial position consist of cash, accounts receivable, interest receivable and portfolio investments. The Corporation generally recognizes a financial instrument when it enters into a contract which creates a financial asset or financial liability. Financial assets and financial liabilities are initially measured at cost, which is the fair value at the time of acquisition.

NIDC subsequently measures all of its financial assets and financial liabilities at cost or amortized cost. Financial assets measured at cost include cash, accounts receivable, and interest receivable. Portfolio investments are measured at cost or amortized cost as disclosed in note 3.

2. Summary of significant accounting policies (cont.)

(b) Financial instruments (cont.)

The carrying values of cash, accounts receivable, interest receivable and portfolio investments (Guaranteed Investment Certificate) approximate current fair value due to their nature and/or the short-term maturity associated with these instruments. The carrying value of portfolio investments (equity investment) is intended to approximate market value. Any decline in the value of portfolio investments (equity investment) that is considered to be other than temporary is recorded in the statement of operations. Any write-down of this equity investment to reflect a loss in value would not be reversed for a subsequent increase in value.

Interest attributable to financial instruments is reported in the statement of operations.

(c) Cash

Cash includes cash in bank.

(d) Revenues

Revenues are recognized in the period in which the transactions or events occurred that gave rise to the revenues. All revenues are recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable.

Interest income earned on portfolio investments is accounted for using the effective interest method.

(e) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is recorded as an expense.

(f) Measurement uncertainty

The preparation of financial statements in conformity with CPSAS requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of the revenues and expenses during the period. Items requiring the use of significant estimates include the valuation of portfolio investments in equity instruments.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from these estimates.

3. Portfolio investments

	2016 (000's)	2015 (000's)
Icewater Seafoods Inc., 35,000 Preference II Shares, at amortized cost	$ 1,666	$ 1,841
Guaranteed Investment Certificate, at cost	700	640
	$ 2,366	$ 2,481

Icewater Seafoods Inc.

During 2004-05, NIDC was authorized by the Province to provide funding to Icewater Seafoods Inc. in the amount of $3,500,000 by way of a preference share investment in order to assist Icewater Seafoods Inc. in its acquisition of the Arnold's Cove seafood processing facility. These Preference II shares, having a par value of $100 per share, are non-voting and redeemable with annual, fixed, preferential and cumulative dividends. The Province advanced funding to NIDC for this investment, by way of two $1,750,000 grants. These grants were received in October 2004 and April 2005, with 17,500 preference shares purchased from each grant.

Pursuant to Section 7 of Schedule "A" to the Subscription Agreement, the par value of each Preference II share should be reduced by $5.00 per share for every year in which a dividend is not payable. To date, no dividend has been payable pursuant to the terms and conditions of the Subscription Agreement. As a result, NIDC's investment in Icewater Seafoods Inc. has been written down in accordance with the Subscription Agreement by $175,000 for the year ended March 31, 2016 (2015 - $175,000).

By Agreement dated October 8, 2004, NIDC has acquired for nominal consideration from High Liner Foods Incorporated, the previous operator of the Arnold's Cove seafood processing facility, its Enterprise Allocations, vessel designations and historic rights for Newfoundland and Labrador offshore fishing areas, as defined by the Agreement. These are intangible assets, and in accordance with current CPSAS, are not valued on these financial statements.

By separate lease Agreement, also dated October 8, 2004, NIDC leased these Enterprise Allocations, vessel designations and historic rights for Newfoundland and Labrador offshore fishing areas, to Icewater Seafoods Inc. and a related company, Icewater Harvesting Inc. This lease is for a period of 20 years with an annual base lease fee of $50,000 along with a contingent variable surcharge amount that is triggered when the annual aggregate cash flow of Icewater Seafoods Inc. and Icewater Harvesting Inc. exceeds a defined minimum threshold. The minimum threshold has never been reached.

Guaranteed Investment Certificate

This investment consists of a Guaranteed Investment Certificate, with a maturity date of December 12, 2016 at an interest rate of 0.95%. The maturity value of the Guaranteed Investment Certificate is $706,668.

4. Financial risk management

NIDC recognizes the importance of managing risks and this includes policies, procedures and oversight designed to reduce risks identified to an appropriate threshold. NIDC is exposed to credit risk through its financial instruments. There was no significant change in NIDC's exposure to this risk or its processes for managing this risk from the prior year.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. NIDC's main credit risk relates to cash, accounts receivable, interest receivable, and portfolio investments. NIDC's maximum exposure to credit risk is the carrying amounts of these financial instruments. NIDC is not exposed to significant credit risk with its cash, interest receivable and portfolio investments (Guaranteed Investment Certificate) because these financial instruments are held with a Chartered Bank.

NIDC is exposed to significant credit risk related to its accounts receivable and portfolio investments (equity investment). NIDC management actively monitor the company in which the equity investment has been made in an effort to mitigate this risk.

5. Budgeted figures

Budgeted figures have been prepared by NIDC management and are provided for comparison purposes.

6. Related party transactions

NIDC is administered by employees of the Department of Finance. The costs of administration are paid directly by the Department. These costs are not material and are not reflected in these financial statements.

7. Distribution of earnings

Pursuant to Section 30 of the *Industrial Development Corporation Act,* the balance that the Minister of Finance considers to be available out of the net profits of NIDC is to be paid to the Province at such intervals and in a manner that the Minister may direct by notice to the Chairperson of the Board.